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Rich Countries, Poor Countries, and the Doha Round Trade Negotiations

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A common criticism of domestic agricultural spending in the United States and European Union is that support for U.S. and EU farmers hurts the economies of low-income countries. Addressing this criticism is key to moving forward in the current Doha Round negotiations of the World Trade Organization (WTO). CARD initiated a study to better understand the link between rich-country agricultural support and poor-country incomes.

Following the Uruguay Round that led to the formation of the WTO, many developing countries voiced their dissatisfaction with the agricultural negotiations agenda. Their priorities are to gain access to markets in high-income countries and to address depressed world prices that result from farm subsidies and export subsidies in high-income countries. European countries rely heavily on export subsidies and domestic support, while the United States has been increasing domestic production subsidies. Both the United States and the European Union maintain import barriers in a few key areas (for example, sugar and dairy). High-income Asian countries tend to be net importing countries that rely on high tariffs and/or TRQs (tariff rate quotas) with prohibitive out-of-quota tariffs in many agricultural and food sectors (for example, Korea and Japan).

Tables 1 and 2 report on two indicators: gains in the efficiency of resource allocation and rural net income (value added) in various countries (see the box for an explanation of country groupings). The analysis considers the removal of all export subsidies, tariffs and TRQ schemes, as well as output and input subsidies affecting production decisions in high-income countries for eleven agricultural activities and six food

TABLE 1. REAL INCOME IMPACTS FROM AGRICULTURAL REFORM IN HIGH-INCOME COUNTRIES/REGIONS (IMPACT IN 2015 COMPARED TO THE BASELINE)

	Removal of All Protection	
	(1997 billion \$)	(percent)
United States	5.0	.05
Western Europe	17.0	.17
High-income Asia	22.1	.34
Canada	4.2	.55
Australia and New Zealand	7.7	.12
Argentina	3.6	.79
Brazil	3.2	.32
China	-0.7	-.04
India	1.6	.23
Rest of East Asia	0.6	.07
Rest of Latin America and the Caribbean	9.2	.72
Eastern Europe and Central Asia	3.2	.22
Sub-Saharan Africa and SACU countries	1.8	.57
Rest of the World	3.6	.22
Low- and middle-income countries	26.0	.27
High-income countries	56.1	.20
World total	82.1	.21
Cairns group	28.5	.57

TABLE 2. IMPACT ON NOMINAL RURAL VALUE-ADDED FROM AGRICULTURAL REFORM

	Removal of All Protection	
	(1997 billion \$)	(percent)
Western Europe	-28.8	-15.5
United States	5.5	4.8
High-income Asia	-34.4	-36.6
Canada	2.1	15.4
Australia and New Zealand	7.8	41.5
Argentina	6.6	15.5
Brazil	5.7	7.0
China	7.9	2.0
India	4.9	3.3
Rest of East Asia	1.5	1.4
Rest of Latin America and the Caribbean	15.3	15.2
Eastern Europe and Central Asia	7.7	10.8
Sub-Saharan Africa and SACU countries	3.4	6.3
Rest of the World	10.3	6.8
Low- and middle-income countries	63.4	5.5
High-income countries	-47.7	-11.2
World total	15.7	1.0
Cairns group	39.1	10.8

Note: Loss of value is net of agricultural subsidies.

sectors including two meat sectors, vegetable oils, dairy products, sugar, and other food.

Table 1 shows that the loss in wealth due to the inefficiencies created by government intervention is large, amounting to about \$82 billion annually at 1997 prices. Developing countries would gain about \$26 billion per year at 1997 prices. Much of the gain in efficiency in rich countries comes about because of lower taxpayer cost (in both the U.S. and the EU) and lower food costs to consumers (in the EU and in high-income Asian countries).

Table 2 shows which countries' producers would win and which would lose. In general, removal of subsidies would result in rising global food prices that would improve incomes among farmers without prior support. The big losers would be farmers in Western Europe and high-income Asia (mainly Japan). High-income countries' agricultural policies are a huge tax on developing-country agriculture. The results indicate that rural value-added in these countries could increase by more than \$63 billion per year. Perhaps of most significance, this income would be delivered directly to the doorstep of poor households in the developing world by the marketplace, bypassing local, regional, and national governments and a variety

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of other mediating institutions. This figure, incidentally, exceeds the most ambitious target for increased aid from rich countries by 20 percent. These results support those who believe that the best way to aid poor countries is to give them economic opportunities rather than direct aid.

The Cairns group, including Australia and New Zealand, would be a clear beneficiary of this liberalization. These two countries do not protect their domestic farmers and are net exporters of important commodities. The group would stand to realize gains of \$28.5 billion per year through higher prices received for their exports, and their rural net income would increase by more than \$39 billion per year at 1997 prices.

These results show that poor countries' protests about the direc-

tion of agricultural negotiations are based on real concerns. An abolition of high-income countries' agricultural support would be a potent catalyst for global poverty alleviation while simultaneously reducing taxpayers' burdens. Of course, the United States and the European Union are not about to agree to an abolition, but poor countries would still gain significantly if rich countries supported their farmers in ways that did not lower world prices and did not require import barriers. It seems unlikely that a new agricultural agreement can be obtained in the Doha Round, unless the United States and the European Union agree to move toward lower and less coupled support for their farmers. Ironically, the European Union is making such a move with a midterm review of their policies, while U.S. policy is moving in the other direction. It will be interesting to see if U.S. trade negotiators will exert more influence over the direction of the next farm bill as they attempt to come to terms with a new WTO agreement on agriculture. ♦

To learn more about this analysis and its limitations, see CARD Working Paper 02-WP 308, available at www.card.iastate.edu.

GROUPING OF COUNTRIES

In the analysis, countries are grouped as follows.

High-Income Economies

Western Europe with the EU-15 and European Free Trade Association (EFTA) countries (Iceland, Liechtenstein, Norway, and Switzerland), the United States, Canada, Australia, and New Zealand

High-Income Asia

Japan, South Korea, Taiwan, Singapore, and Hong Kong

Developing and Transition Economies

Argentina, Brazil, China, India, Rest of East Asia, Rest of Latin America, and the Caribbean, Eastern Europe and Central Asia, Sub-Saharan Africa and South African Customs Union (SACU) countries (South Africa, Botswana, Lesotho, and Swaziland), and Rest of the World